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Iran: Political Instability and Economic Disarray

Special National Intelligence Estimate

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SNIE 34-81

IRAN: POLITICAL INSTABILITY AND ECONOMIC DISARRAY

Information available as of 25 February 1981 was
used in the preparation of this Estimate.

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THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS, EXCEPT AS NOTED IN THE TEXT.

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The Central Intelligence Agency, the intelligence organizations of the Departments of State and Defense, and the National Security Agency.

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CONTENTS

	<i>Page</i>
OVERVIEW	1
DISCUSSION	3
The Power Struggle in Tehran	3
The Current Political Situation	8
Political Prospects	9
The War With Iraq	9
Economic Conditions	11
Foreign Relations	13
Soviet Policy Toward Iran	15
Implications for the United States	16

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OVERVIEW

The near-term outlook in Iran is for ongoing political instability and economic disarray as the fundamentalists continue their efforts to monopolize power and transform Iran into a truly Islamic state. This complicates decisionmaking at all levels, although release of the hostages demonstrates that controversy can be overcome when a majority of key political actors reach consensus.

Ayatollah Khomeini retains his widespread personal popularity and will probably remain Iran's preeminent figure and ultimate arbiter of disputes for at least the next six months. So long as Khomeini is well enough to influence the political scene, the power struggle in Tehran will not be resolved. Khomeini's sudden death or incapacitation would almost certainly lead to intensified violence and possibly civil war.

Both the military and the leftists would be tempted to try to seize power if political stability further deteriorates. Dissatisfaction and plotting have been endemic in the armed forces since the revolution, but a coup faces many obstacles. A united left would represent a potent force for disruption, but the leftists are splintered along ideological lines. The various exile groups are weak, divided, and have little popular appeal. Still, even an unsuccessful attempt to assassinate Khomeini or other key leaders would tip Iran toward greater chaos.

The ethnic minorities, which make up about half of Iran's population, will continue to seek increased local autonomy. They are more likely to be exploiters of political change rather than instigators of it.

The Iranian economy, already severely depressed by events flowing from the revolution, has been further disrupted by the war with Iraq. Significant improvement will not occur over the next several months, although food and fuel shortages will probably ease somewhat in the spring. At present levels, Iranian oil exports are sufficient to pay for much-needed military supplies and food, and to avoid a foreign exchange crunch. If the flow of oil were cut off or dramatically reduced, however, Iran's situation would become very bleak within six to 10 months. Meanwhile, disruptive inflation, unemployment, and raw materials shortages will persist, but economic conditions alone are unlikely to result in decisive popular discontent or cause the regime to seek an end to the conflict with Baghdad.

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The war has settled into a stalemate that will last at least through the spring. The outcome will probably not be resolved on the battlefield. The failure of Iran's January counteroffensive in the Susangerd area resulted in losses of both men and equipment which cannot be quickly replaced. Although Iran will not be capable of conducting operations on a similar scale before midsummer, it does have a continuing capability to strike highly vulnerable petroleum facilities in neighboring oil-producing states.

Iranian foreign policy, like the domestic scene, will remain highly volatile. It will probably begin to take shape in efforts to achieve non-alignment, eliminate both US and Soviet regional influence, encourage fundamentalist uprisings in other Islamic states, and guarantee economic self-sufficiency. At best, the chaotic internal political situation will eventually produce both a government and a policy approach which are at once highly nationalistic, anti-Communist, and nonaligned.

The Iranians remain deeply suspicious of Soviet intentions toward Iran and critical of Moscow's involvement in Afghanistan. Soviet policy is based largely on the judgment that there is little hope for a thaw in relations as long as Khomeini remains on the scene. Because of the unstable political climate in Iran, the Soviets want to quietly build an infrastructure that could be quickly used to exploit new opportunities. Moscow therefore believes that its most promising current option is to curry favor with the present government and to play on its anti-Western orientation while awaiting future opportunities.

Iran will remain hostile to the United States, and the US Government will have little direct leverage to channel developments in ways that serve its interests. Given the fluid situation, US moves which maintain flexibility, serve long-term interests, and operate in an indirect manner probably have the best chance of achieving lasting benefits.

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DISCUSSION

The Power Struggle in Tehran

1. The most important factor affecting Iran's internal political stability over the next six months will be the continuing power struggle between the Islamic fundamentalists and the secular moderates¹ who have clustered around President Bani-Sadr (see figure 1). This rivalry will dominate the Iranian political scene and set the tone, direction, and pace of events to follow. Other players—such as the various leftist

¹ Political factions and actors are difficult to label in Iran. In this Estimate, the term "fundamentalist" is used to denote religious and lay personalities and groups who have demanded that Iran be transformed into a strict Islamic state with the virtual elimination of all secular influence. Generally, this group has been associated with the Islamic Republic Party. Within the fundamentalist group there is an extremist faction which is referred to as "the hardliners." The term "fundamentalist" is not used to identify the entire religious establishment, because not all of Iran's clergy share the fundamentalists' outlook. The term "moderate" is used only for comparative purposes. Although the moderates are sometimes referred to as "secularists," many of them do profess to be devout Muslims.

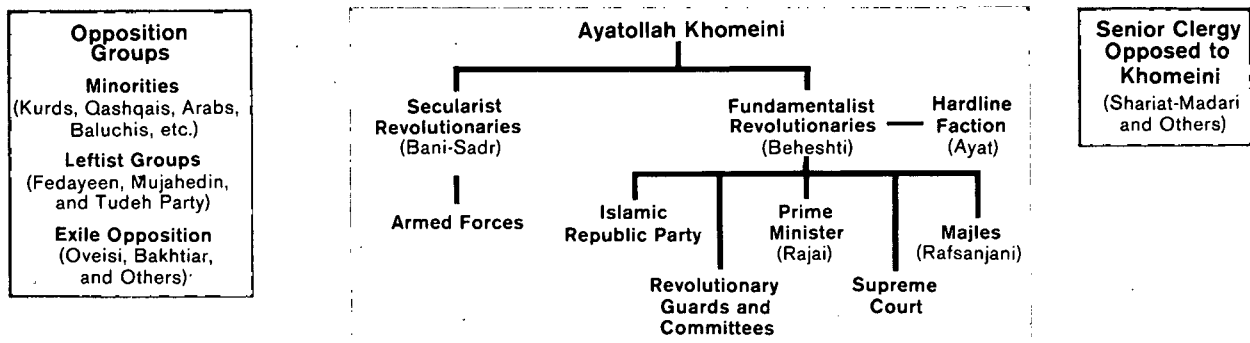
groups—will react to key developments and seek tactical advantages as opportunities present themselves. This paper analyzes the key actors, issues, and forces shaping the complex Iranian political scene and speculates on future political trends.

2. The revolution that swept Iran in 1978 and 1979 was unique in modern Middle Eastern history: a genuine popular upheaval with nearly every element of society opposing the monarchy. Following the revolutionary victory, this broad coalition rapidly disintegrated into competing factions, with each group striving for political dominance. It is the continuation of that power struggle that lies at the heart of Iran's current political woes. Until the issue is resolved, the country cannot begin to rebuild itself or to establish any durable institutions.

3. The focus of the controversy lies in the failure of key elements of Iranian society to agree on the aim of

Figure 1

Iran: Political Power Centers



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the Islamic revolution. Three rival points of view are currently in contention:

- Those who favor an authoritarian Islamic state dominated by the clergy.
- Protagonists of a more open society, but one still guided by Islamic principles.
- Leftists seeking to remodel society using further revolutionary upheaval.

4. The first position is supported by the clerical and lay fundamentalists who, since February 1979, have attempted to monopolize power and to eliminate the influence of the other elements of the anti-Shah coalition. The fundamentalists are loosely organized under the banner of the Islamic Republic Party (IRP) and are led by several senior clergymen, most notably the head of the Supreme Court, Ayatollah Beheshti. Most are unswerving ideologues, unwilling to compromise or negotiate on many political and social issues. They are by no means unified. Some of the hardline Islamic fundamentalists are only nominally a part of the IRP and have pressed for even more radical change. As a result, further fragmentation is likely.

5. The second group is represented by President Bani-Sadr, an Islamic ideologue but a tactical realist. Bani-Sadr appears to have wide personal support, but has no effective grass-roots organization. He serves as spokesman for a loose coalition of antifundamentalist politicians who do not necessarily accept his leadership on all issues. Last year, he lost much of his political power, in part because of his controversial efforts to resolve the hostage crisis. The war with Iraq, however, has given Bani-Sadr an opportunity to strengthen his position by associating himself closely with the military at the front and creating the leadership image of a president battling to preserve Iran's national integrity. Nevertheless, this opportunity could backfire if the fundamentalists find a way to blame Bani-Sadr for any future battlefield reverses.

6. Ayatollah Khomeini plays a critical and complicated role in the power struggle as the ultimate arbiter of disputes between these two factions. He favors fundamentalist control in Iran, but is less concerned with ensuring the political fortunes of individual fundamentalists than with maintaining a consensus that the revolution must be guided by Islamic principles. Khomeini could attempt to end the power struggle by choosing one side or the other or by allowing it to

reach a decisive climax. Instead, he seems to engage in a delicate balancing act by identifying himself with those who support Bani-Sadr and criticize fundamentalist abuses, while supporting the fundamentalists' government and limiting Bani-Sadr's presidential powers.

7. Khomeini's own power and influence, however, are not absolute. In repeated calls for unity among rival factions, for example, he apparently feels constrained to shape pronouncements in accordance with perceived popular opinion. Khomeini is as much a follower of such opinion as he is a shaper of it. He avoids day-to-day details and is content to offer general guidance. This gives others the opportunity to speak in his name—often in conflicting terms. Moreover, perceptions of Khomeini's health also influence the dynamic of the power struggle.

8. Several other groups are waiting in the wings to challenge the regime. Apart from an isolated military act²—such as an assassination attempt against Khomeini—a united left represents the greatest eventual threat to the regime. At present the left is not strong enough to challenge the government directly. Deep divisions have thus far prevented organization of a single, united front. Recent reporting indicates that the leftists will become more active and may attempt to exploit the political chaos for their own purposes. They are likely to gain strength over the next six months.

9. Three leftist organizations are particularly significant:

- The **Mujahedin-e Khalq** is the largest leftist group and espouses a vague ideological mix of Marxism and Islam. It is armed, has wide popular appeal, especially among the young, and is intensely anti-American. However, it claims to have a "nationalist" (that is, neither East nor West) foreign policy approach.

- The **People's Fedayeen**, a radical leftist group with no Islamic pretensions, recently split into at least two factions but is still capable of some ter-

² A classical military coup is not likely to occur in Iran in the next six months. The regime is vulnerable, however, to an isolated strike against Khomeini and/or other key figures by a relatively small group of officers and men. Transfers of regular and Revolutionary Guard forces to the war zone have left leading figures and key locations in Tehran less well protected.

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rorist operations like the attack on the US Embassy in February 1979. At least one faction has allied itself with the Tudeh in support of Khomeini's regime.

- The Soviet-Sponsored Communist **Tudeh Party**, which is relatively small but well organized, publicly, backs Khomeini on all key issues, while clandestinely seeking to build its strength in government institutions and other political factions. By itself the Tudeh could probably seize power only through a coup during a period of extreme unrest and would require massive Soviet support to retain control.

10. *The exiles* (see table 1) are another source of opposition to the regime. Virtually all have pegged their hopes for a return to Tehran on growing disillusion with the revolution. Most hope that popular support for Khomeini will wane as chaos in Iran grows. They are attempting to convince a number of Arab and Western governments to support them. The war with Iraq has highlighted early ties which some of the exile groups had developed with Baghdad. This setback, coupled with the association of many exile leaders and the royal family, has prevented them from winning much internal support. Moreover, their inability to agree on a single leadership figure or to

Table 1

Prominent Iranian Exiles

	Former Position	Base of Support	Level of Support ^a
Shahpur Bakhtiar	Last Prime Minister under Shah	Officer corps; middle-class support dwindling	Weak
Qolam Ali Oveisi	Ground Forces Commander under Shah	Military	Weak
Ahmad Madani	Defense Minister under Khomeini	Military; anticlerical elements	Moderate
Ali Amini	Prime Minister under Shah	Middle class	Very weak
Fereyduun Jam	Chief of Staff under Shah	Military	Very weak
Hasan Nazih	Head of Iran National Oil Company	Azerbaijanis	Weak
Azizollah Palizban	Chief of Military Intelligence under Shah	Kurds	Weak
Ahmad Bani-Ahmad	Azerbaijani political leader associated with Muslim People's Republic Party in Azerbaijan	Azerbaijanis	Weak
Bahram Ariana	Chief of Staff under Shah	Military; possibly some wealthy exiles	Very weak
Rahmatollah Moqadam-Maraqei	Aide to Ayatollah Shariat-Madari, official of the Muslim People's Republic Party	Azerbaijanis	Weak

^a The Director, Defense Intelligence Agency, believes this column is ambiguous because it addresses only current internal political support.

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effectively cooperate in even the most general way has prevented the formation of a viable opposition movement abroad. There is an alternative view which holds that, if these movements should resolve their differences and coalesce under a unified leadership, they could add an important external element to the nonleftist internal opposition.³

11. *The ethnic minorities* (see figure 2) make up about half the nation's population and have presented problems for the Khomeini regime since it came to power. Minority unrest will plague the government for the foreseeable future, but ethnic groups are more likely to be exploiters of political change rather than instigators. In general, the minorities continue to await the denouement of the political contest in Tehran.

12. Minority leaders have traditionally sought to reduce the influence of the central government in their affairs while gaining as much developmental aid as can be absorbed without disturbing tribal ways. The ineffectiveness and disorganization of the present regime have given the minorities de facto autonomy, but they have not sought complete independence. Instead, they seek some control over local affairs, increased investment by Tehran in development projects in their homelands, and consultation over the role of military units stationed there.

13. The most important of the minorities are:

- **The Kurds.** They are the only group to have maintained a sustained armed resistance to the government. They have well-organized paramilitary parties, a passion for autonomy, and access to support from Iraq and some East European states. The Kurds, however, are internally factionalized.
- **The Arabs.** Although concentrated in oil-rich Khuzestan, the Arabs by and large have not supported the Iraqi invasion. The small Iranian Arab dissident groups—long supported by Iraq—have had little effect on the course of the conflict.
- **The Azarbayjanis.** They are Iran's largest minority group and hold senior positions in the political, military, and economic bureaucracies. Most are loyal to moderate Ayatollah Shariat-Madari, who opposes Khomeini but has resisted confrontation with the fundamentalists. There

have been sporadic clashes with pro-Khomeini forces in Azarbayjani areas, but many have been provoked by leftist groups, which are relatively strong there.

- **The Turkomans.** Sporadic incidents have occurred in the Turkomans' homelands since the clashes of early 1979, but their area has remained generally calm.
- **The Baluchis.** The Khomeini regime remains suspicious of alleged Baluchi contacts with leftist Baluchis in Pakistan and of Soviet contacts with Baluchi dissidents. These suspicions probably are exaggerated. The government has been denied effective control of Baluchi territory outside of the major towns, but the tribal leadership remains divided and unwilling to expose its people to retaliation by attempting to push out government forces. Recent reports suggest that Iraq is attempting to support Baluchi dissidents through clandestine arms shipments across the Persian Gulf.
- **The Qashqais.** They are the most Western-oriented of Iranian minorities. Their opposition to fundamentalist attacks on traditional tribal organizations have resulted in several armed clashes. Qashqai leaders are arming their followers and have had some contacts with foreign governments and Iranian exile groups abroad. Despite their disenchantment with the present regime, however, the Qashqais are political realists who will not move alone against Khomeini.

14. Two other groups eventually could play a pivotal role on the Iranian political scene: the military and the Revolutionary Guard. Plotting has been endemic in the armed forces since 1978; the most serious coup attempt failed in July 1980. Another such attempt would face major obstacles—the Revolutionary Guard, spies, divided rank-and-file loyalties—but even an unsuccessful effort to assassinate Khomeini or other senior officials could throw Iran into chaos.

15. The revolution dramatically altered the status of Iran's military forces. Chaotic conditions in the government and country, major purges and desertions, lack of long-range government planning, and a general distrust of the officer corps have all contributed to a significant reduction in both their size and overall effectiveness. The creation of a Revolutionary Guard Corps (*Pasdaran*) to protect the Islamic movement,

³ The holder of this view is the Director, Defense Intelligence Agency.

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Figure 2
Selected Minority Groups



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and the war with Iraq have aggravated the internal situation and precluded any major rebuilding of the armed forces in the near term.

16. While all services have suffered from the revolution, the Army and the Air Force have been hardest hit. Both have sustained substantial losses of men and equipment due to purges and the war. (See table 2.) These changes have put less experienced officers in command positions, with a resulting reduced capability to coordinate military action.

17. The Revolutionary Guard, a force of about 20,000 full-time regulars and substantial numbers of irregulars, was organized with the express purpose of protecting the revolution and its clerical leaders from all opponents, particularly the military. It proclaims loyalty to Ayatollah Khomeini and works in tandem with the Islamic Republic Party and other revolutionary institutions. A strict command and control structure has not been established, and local Guard units (particularly in the provinces) have often operated autonomously and in a near lawless fashion. The Guard has also clashed with military leaders by commandeering equipment, issuing unauthorized or-

ders to military units, and refusing to cooperate with local commanders.

18. While some Guard personnel reportedly have been trained to employ tanks and artillery, the corps remains primarily equipped with light infantry weapons and is subject to many of the same recruiting and logistic difficulties that plague the regular forces. It is unlikely that the Guard will be able to improve its military capabilities in the near term, although it will continue to outclass armed leftist groups and other street protesters. In an urban setting it is capable of putting up formidable resistance as the fighting in Khorramshahr and Abadan demonstrated.

19. The economic situation and the war also affect internal political events. Significant improvement in the economy will not occur over the next several months, although the fuel and food shortages exacerbated by winter weather will ease somewhat in late spring. Inflation, unemployment, and continual shortages will, however, remain important problems for the regime and will continue to contribute to popular unrest. (See economic section, beginning at paragraph 35, for a more detailed discussion.)

20. Both Bani-Sadr and the leftists are likely to continue to use the country's dismal economic condition to challenge the fundamentalists. Meanwhile, the fundamentalists have been prevented from using Iran's military setbacks to counter Bani-Sadr because of Khomeini's increasingly strong defense of his role in the war effort.

The Current Political Situation

21. At present, the fundamentalists have the upper hand in Iran because they dominate the legislative, judicial, and executive branches of government and the revolutionary organizations (including the Revolutionary Guard). Factors which account for the fundamentalists' current success include the following:

- They gave the revolution its ideology, its organization, and the leadership which led to its success.
- They have retained a large reservoir of popular support and are bolstered by Khomeini's charisma. By and large, Khomeini's core supporters—the uneducated urban masses—do not believe that *he* has betrayed the ideals or goals of the revolution, although there is growing disenchantment with the clergy in general and dis-

Table 2

Equipment in Iran's Armed Forces ^a

	August 1980	February 1981
Army		
Tanks	1,765	1,200-1,250
Armored personnel carriers	3,135	2,800-2,900
Artillery pieces (100-mm and over)	1,228	1,000-1,050
Navy		
Destroyers	3	3
Frigates	4	4
Missile boats	9	8
Other patrol craft	48	30-35
Hovercraft	14	14
Mine warfare types	5	5
Air Force		
Fighters	448	300-325
Transports	96	95
Tankers	17	15
Helicopters	853	743-753

^a Much of the equipment in Iran's current inventory is not functional.

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dain for certain individual clergymen and lay fundamentalists.

- They have acted forcefully in the political arena by executing opponents, using the Revolutionary Guard and street toughs to undercut their opposition, appointing oversight committees in the bureaucracies, and buying mass support through financial donations.

22. Bani-Sadr's popularity and position as President and Commander in Chief give his supporters a toehold in the government. Technical skills also provide his supporters with influence in such organizations as the Iranian National Oil Company and the Central Bank. The fundamentalists have removed many Western-educated technocrats but have not been able to dislodge all of them.

23. Since the release of the hostages, various opposition groups have become much more aggressive in their efforts to erode clerical domination in Iran. They have more openly denounced fundamentalist policies and actions, and Bani-Sadr has gone so far as to say that Iran's "destiny will be bleak, unless the nation stands up to those [the fundamentalists] who rule with lies, imprisonment, and torture."

Political Prospects

24. The highly charged political environment has several implications for ongoing developments:

- It assures that Iranian society will remain politically mobilized.
- It politicizes and radicalizes every issue on the Iranian political scene, because a victory by one faction on a given issue is seen as a defeat for the other.
- It makes any proposal or idea that smacks of moderation or compromise suspect and open to the charge of being antirevolutionary.
- Media warfare, street demonstrations, and occasional assassinations will continue.

25. As long as octogenarian Khomeini is alive and reasonably well, the power struggle will not be resolved. Khomeini's death⁴ will probably lead to a climax of this phase of the power struggle.

⁴ [redacted] there is only a 10-percent chance Khomeini will die during the next six months.

26. Khomeini is said to have chosen Ayatollah Montazari as his successor. The clerics, however, are deeply concerned about the prospects for a smooth transition. Montazari does not possess Khomeini's appeal and has no significant independent base of support. Montazari, Beheshti, and the fundamentalists will almost certainly attempt to complete the Islamization of Iran but, since these senior clergymen do not possess Khomeini's charisma, their grip on power will be tenuous.

27. If the fundamentalists move to fully consolidate their position, Bani-Sadr will have to decide whether to submit or actively resist: a decision that could lead to civil war.

28. An alignment among Bani-Sadr, some of the bazaar merchants, elements of the military, and moderate clerics is possible. Some of the exiles and ethnic groups might also become a part of this alliance. The Mujahedin, which is currently confronting the fundamentalists in the streets, could also decide to throw its weight behind Bani-Sadr. The Mujahedin welcomes continued political instability as a means of expanding its influence. On the other hand, the Tudeh and parts of the Fedayeen will probably continue to support the hardliners.

29. In sum, political prospects during the term of this Estimate point to continued instability—and to intensified violence if Khomeini dies or is incapacitated during this period.

The War With Iraq

30. The war has settled into a stalemate that probably will last at least through spring. The frontline has changed little since the first two weeks of fighting. (See figure 3.) Except for the unsuccessful Iranian counteroffensive in January, the war on the ground had been essentially limited to occasional probes and artillery exchanges. The failure of the Iranian counteroffensive in the Susangerd salient has left Tehran's forces more vulnerable to further Iraqi offensive operations. In the coming months, the Iranians will not be able to overcome Iraqi advantages in troops and armored vehicles—particularly tanks. Still, the outcome of the war will be determined primarily by political developments in Baghdad and Tehran and not on the battlefield.

31. The air war thus far has been far more important economically and psychologically than militarily.

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Figure 3
Iraq-Iran War: Disposition of Forces



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Although major military and economic targets have been attacked, both sides now use fighter aircraft primarily for defensive patrols and are likely to be able to maintain the potential for attacking key economic targets over the next several months. Despite its war losses and reduced military strength, Iran also retains the capability to strike targets on the Arabian Peninsula. Iran has operational fighter-bombers stationed at three bases on the Persian Gulf, it has successfully conducted amphibious commando raids, and its Navy still operates behind a facade of unchallenged supremacy.

32. The Iranian military probably cannot be adequately prepared for another campaign before mid-summer. The actual timing of any future offensive, however, is highly dependent on political decisions in Tehran, and Iran's ability to:

- Offset its combat losses by repair and/or consolidation of remaining assets.
- Acquire badly needed spare parts and munitions.
- Develop effective combat logistics and command and control mechanisms at the front.
- Recruit, train, and integrate new personnel into combat units.

33. In spite of its worldwide search for military supplies, Tehran has obtained only limited quantities of arms from North Korea, Libya, Syria, and independent arms brokers. Iranian foreign exchange reserves are sufficient to continue or expand such purchases over the near term. Iran's ability to pay for needed defense imports ultimately depends on its capability to maintain or increase oil exports—a capability highly vulnerable to Iraqi attack. In any case, bureaucratic inefficiency and transportation bottlenecks are likely to continue to constrain Iran's quest for additional military hardware.

34. Mediation efforts have bogged down because of the intransigence of both sides on the issue of Iraqi withdrawal from Iran and differences over sovereignty and access to the Shatt al Arab.

Economic Conditions

35. The Iranian economy, already severely depressed as a result of the revolution, has been further disrupted by the war. Shortages and unemployment are widespread, and there have been some overt manifestations of popular discontent. Most basic needs are

being met. Worsening economic conditions, however, are contributing to popular unrest, and beginning to influence Iran's internal political situation.

36. This situation could be further exacerbated by Iraqi military action against a very few key facilities. Specifically:

- The most important oil export facility, Kharg Island. (Oil facilities are shown on figure 4.) If Iran does not continue to export oil, it will be faced with a severe foreign exchange shortage in six to nine months.
- The two remaining major operating refineries at Tehran and Esfahan. If these were out of commission, or the flow of oil through the pipelines which service them was stopped, Iran would have great difficulty getting enough petroleum products to continue the war, generate electricity, and distribute even basic foods to the population.

37. *The Economy.* Overall industrial activity has declined to only one-quarter to one-third of the prerevolutionary levels. (See table 3.) Government attempts to use the war to cajole increased production have been ineffective. Furthermore, political infighting at the top prevents formulation of coherent economic policies.

38. Inflation is accelerating as shortages worsen. Rationing has been imposed on food and fuel. While the war effort has generated additional jobs in some areas, it has probably added 500,000 workers from wartorn Khuzestan Province to the already large unemployment rolls. Altogether about 1.5-2 million people have been displaced by the war, creating a serious refugee problem.

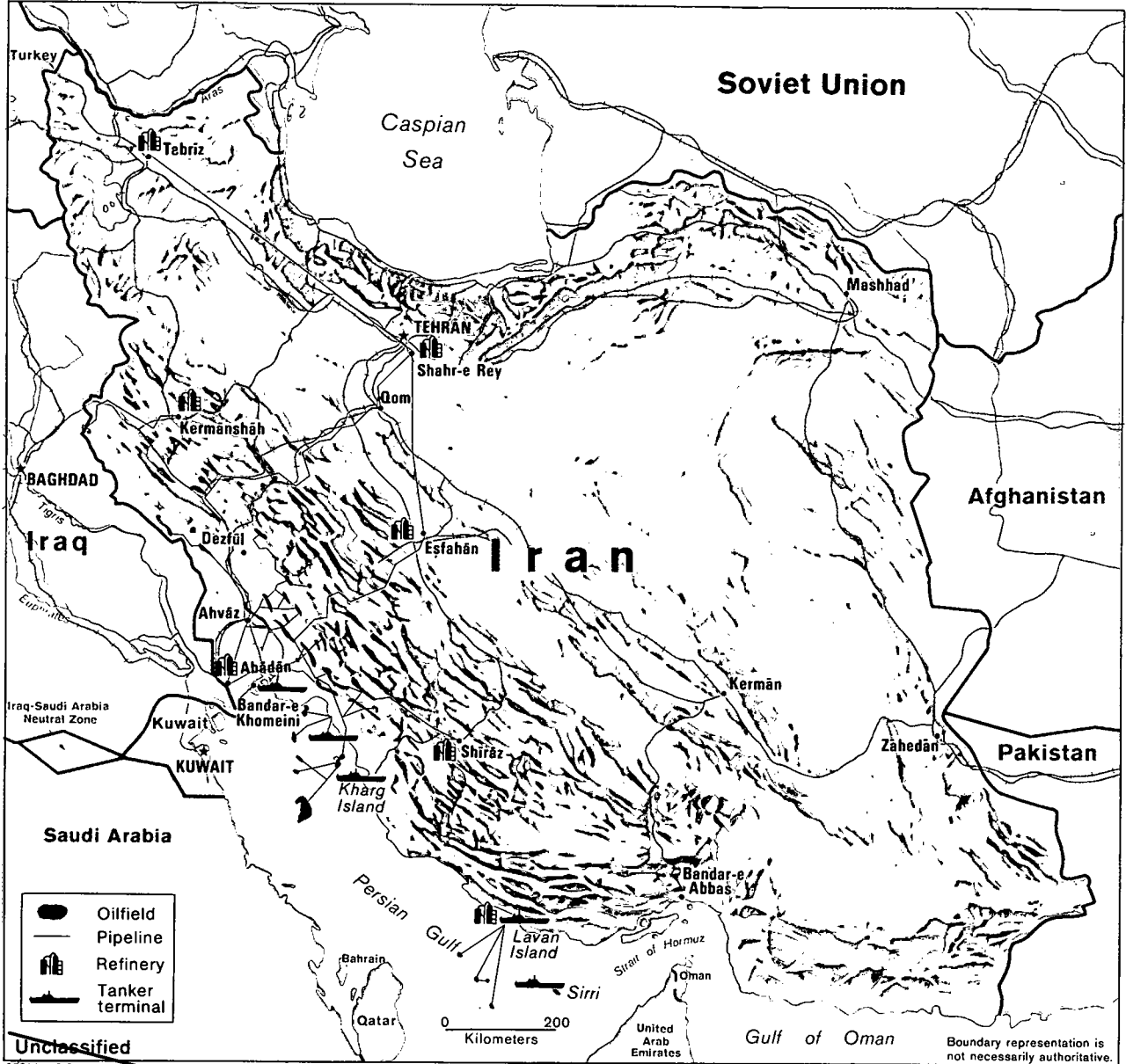
39. *Shortages.* Only a portion of normally imported food supplies is now available, but the country can muddle through the remainder of the winter because of carryover stocks from this year's harvests, through rationing, and by giving high priority to food imports. Bread, rice, potatoes, sugar, eggs, milk, and vegetable oil have been added to the growing list of goods covered by government rationing. Food import requirements will remain high, especially since important agricultural areas have been hurt by the war.

40. Iran's domestic oil supply situation remains precarious. Operating refineries can provide roughly 80 percent of normal winter demand, but kerosene

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Figure 4
Iranian Oil Facilities



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Table 3

**Iran: The Economy at a Glance
Since the Revolution**

Overall economic activity	Operating at about one-third pre-revolution levels.
Industrial activity	Down to one-quarter to one-third of normal.
Agricultural output	Down slightly in foodstuffs; meat/poultry down moderately or worse.
Oil production	Down by more than two-thirds to around 1.6 million b/d.
Oil exports	Down to around 1.1 million b/d.
Oil earnings	About \$40-45 million a day.
Imports	Down by almost half in value terms and about two-thirds in volume.
Available reserve assets	Down to around \$8.5 billion.
Unemployment	Up threefold to 3-4 million persons, mostly urban workers.
Inflation	Up sharply to around 60 percent per annum.

and gasoline are in very short supply. The situation would deteriorate quickly if either of the two remaining major operating refineries at Tehran and Esfahan were put out of commission. Port and transportation constraints keep Iran from importing more than 10 percent of its refined petroleum requirements.

41. **Access to Imports.** The fighting has further reduced Iran's import capabilities, largely limiting the flow of imports through the Persian Gulf to a single major port, Bandar-e Abbas. Contraction of Iran's trade with the West has somewhat increased its dependence on trade with the Communist countries, but transport bottlenecks prevent a major shift in that direction.

42. **Oil Exports.** Oil exports are critical to Iran's continued ability to keep the economy functioning. Oil has been shipped from Sirri and Lavan Island in the southern Persian Gulf and from some of the facilities at Kharg Island. Exports averaged about 260,000 barrels a day during October and November and

surged to about 740,000 b/d for the period 22 November through 21 December. The latest Iranian statistics indicate that oil exports totaled about 1.1 million b/d for the period 22 December through 17 February. (See figure 5.)

43. **Financial Conditions.** Iran no longer faces an immediate foreign exchange shortage, although its financial situation could rapidly deteriorate if oil exports drop much below the present rate of 1.1 million b/d. Following the unblocking of US bank accounts, Iran's central bank had about \$5 billion in foreign exchange reserves; given the estimated current level of revenues and expenditures, it is drawing down reserves by about \$150 million a month. A sustained drop in exports to, say, 800,000 or 900,000 b/d would precipitate roughly \$400-500 million in monthly drawdowns. If so, at current import levels, Iran's foreign exchange could be exhausted in about 10 months, forcing liquidation of some of its \$2.8 billion in gold or a draw on its \$700 million position at the International Monetary Fund to prevent a financial crisis.

44. **Economic Prospects.** The lifting of economic sanctions will have minimal effect on Iran's economy, and there is little chance of substantial economic improvement in the foreseeable future. Should the tempo or scope of the war accelerate substantially, some of Iran's vital and highly vulnerable economic infrastructure would likely be subject to Iraqi attack. Similarly, serious domestic unrest could affect the internal distribution of goods, the operation of the oil sector, and Iran's ports.

45. The arrival of warm weather will relieve some of the burdens on the population as winter heating needs are eliminated and Iran's own food harvests begin. Despite those factors, food and other goods shortages will persist and unemployment and inflation will remain major problems for the regime.

Foreign Relations

46. Iran's ability to effectively project its policy views onto the world stage will remain circumscribed until its domestic house and internal stability problems are put in order. All revolutionary elements agree on the broad outline of "Islamic foreign policy," the main points of which include:

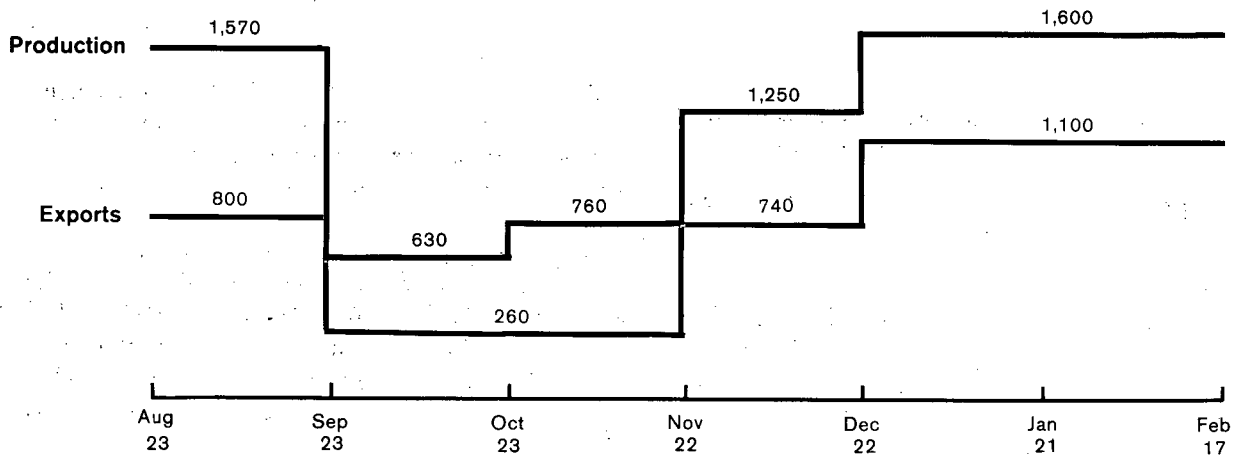
- Strict nonalignment.
- Elimination of superpower influence in the region.

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Figure 5

Iran: Crude Oil Production and Exports, 23 August 1980 – 17 February 1981^a

Thousand barrels per day



^a Including product exports. Data are averages for each period.

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- Economic self-sufficiency.
- Xenophobic nationalism.
- Exporting the Islamic revolution.

Despite this fundamental construct, even bilateral relations are often confused and contradictory. This is not surprising, given the shifting nature of internal political dynamics. Iran's regional goals are dominated by the desire to curtail or eliminate great-power influence and to encourage Islamization of governments in the Persian Gulf region, especially where substantial Shiite communities exist.

47. *The Gulf States.* For months, Iran has pursued an almost schizophrenic policy toward the Persian Gulf states. Statements expressing a desire for good relations have been followed by derogatory and men-

acing comments. The war intensified this already pronounced tendency.

48. Iran's revolution is seen as a major source of regional destabilization by the other countries of the Persian Gulf. The revolution has opened regional regimes to some of the same charges that the Iranian clergy used so effectively against the Shah: corruption and the failure to adhere to Islamic principles. All Gulf states must cope with problems of social and economic dislocations associated with modernization and oil wealth that so undermined the Shah's regime. Most of these countries have Shia communities and large expatriate populations open to outside manipulation. The various regimes have been slow in developing strategies to deal with these problems or with the new regime in Tehran.

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49. *Afghanistan.* The Iranians have consistently denounced the Soviet invasion of Afghanistan and have rebuffed all Soviet efforts to have Tehran deal with the Babrak regime. We would not expect them to participate in any scheme or conference which implied de facto recognition of the present Kabul government and which did not require as a precondition the withdrawal of Soviet troops.

50. *The Arab Radicals.* Tehran's diplomatic isolation in the early days of the war encouraged it to seek practical alliances with some radical Arabs. Ties between Syria—Iraq's traditional ideological rival—and Iran were cordial even before the war. Syria has provided Iran with small arms and ammunition and has served as a transshipment point for supplies from East European countries to Iran. Some reports also suggest that Damascus may purchase Soviet arms for resale to Tehran.

51. Tehran's relations with Libya have improved. Although Libyan leader Qadhafi has long expressed support for Iran's Islamic revolution, relations between the two states were clouded by the disappearance in Tripoli of a prominent Lebanese Shia leader—the Musa-Sadr affair.

52. At least for the moment, the Iranians appear willing to forget about the missing imam. For its part, Libya has agreed to serve as a middleman for Iranian arms purchases and has agreed to improve economic relations with Tehran. It has likewise professed a willingness to provide Iran with tanks, artillery, and antitank missiles, and has already supplied some spare parts, small arms, and ammunition.

53. The war with Iraq has complicated Iranian ties with the Palestine Liberation Organization because the PLO must also preserve its ties with Arab Baghdad. PLO leader Arafat initially hoped to mediate the differences between the two sides and traveled to both capitals in the early days of the war, but his mission failed and led to further strains with both.

Soviet Policy Toward Iran

54. Moscow's policy with respect to Iran is based largely on the judgment that there is little hope for any significant Soviet breakthrough as long as Khomeini remains on the scene. Given the instability of the situation in Iran, however, the Soviets want to build up an infrastructure that could be used quickly to exploit any new opportunities. Consequently, the Soviets are

continuing to support the Tudeh in hopes that it can ultimately play a decisive role in Iranian politics. They are also encouraging greater cooperation between the Tudeh and other leftist elements. Similarly, Moscow is reportedly in contact with and providing assistance to some dissident minority groups.

55. Moscow appears to believe that its most promising current option is to curry favor with the present government in Tehran and to play on its anti-Western orientation. Thus, while paying lipservice to the principle that the hostage seizure was a breach of international law, the Soviets nonetheless portrayed Tehran's demands as "legitimate" and assisted in thwarting US economic sanctions during the crisis.

56. The Soviets have largely been frustrated in their efforts to improve relations. The Iranians remain highly suspicious of Soviet intentions toward Iran and critical of Moscow's involvement in Afghanistan.

57. While possibly creating some future opportunities in Iran for the Soviets, the Iran-Iraq war has complicated Moscow's relations with Tehran, already wary of Soviet support for Iraq. To counter this the Soviets throughout most of the conflict have inclined toward Iran. Moscow has refused to satisfy Iraqi requests for new major weapon systems and has been equally reluctant to proceed with previously scheduled deliveries. The Soviets have, on the other hand, suggested an interest in broadening their arms relationship with Tehran while stalling on deliveries of specific items, including spare parts covered by agreements signed with the former imperial government.

58. Moscow is well aware that this balancing act risks alienating Baghdad and pushing Iraq closer to the other Persian Gulf Arabs and the West. Consequently, the Soviets have opted for a strategy of allowing East European arms deliveries to Iraq while withholding their own. The very fact that Moscow is willing to run the potential risk of losing the friendship of Iraqi President Saddam Hussein clearly underscores the geopolitical importance of Iran to the USSR.

59. Underlying Soviet policy is the judgment that Iran is the main geopolitical prize in the region. Moscow fears that the war could lead to closer ties between Iran and the West and a resurgence of US influence. The release of the US hostages heightened Soviet concern, and since the hostages' release the Soviets have tried to keep Iranian attention focused on the alleged threat the United States continues to pose. At

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the same time, Moscow—concerned over the vulnerability of its own representatives in Tehran—has reminded the Iranians of its past support and warned that Soviet tolerance and patience are limited.

60. The Soviets are not sanguine about the near-term prospects for a leftist seizure of power in Tehran. Nor is it clear that they see a fragmentation of Iran as necessarily in their best interest.⁵ Moscow is proceeding cautiously in its relations with both the left and the minorities for fear of derailing its efforts to improve state-to-state relations with the government in Tehran and triggering a government crackdown against the left.

61. Given the risk of confrontation with the United States, Moscow would clearly prefer to achieve its aims in Iran without using military force. While a full-scale Soviet invasion currently seems unlikely, there are certain developments that could lead the Soviets to consider military intervention. A serious threat of US military involvement could prompt a Soviet reaction or preemptive move. If a leftist coalition were able to seize power and called for Soviet armed forces support, Moscow might honor its request. Similarly, if Iran were to fragment along ethnic lines and the Soviets thought this process irreversible, they might intervene militarily.

62. According to an alternative view, the Soviets are seeking to ultimately control Iran and are working to achieve this through a leftist takeover or by taking advantage of fragmentation. While the holders of this view agree that Moscow clearly would prefer to achieve its aims in Iran without direct overt military force, they note that Soviet forces in the border region have the capability to intervene there while Iranian ability to offer meaningful resistance has been sapped by the revolution and the Iran-Iraq war. Soviet direct military intervention could be prompted by a request from a leftist coalition if such a coalition managed to seize power or create a plausible basis for requesting intervention. The Soviets might intervene if Iran were to fragment along ethnic lines in an apparently irreversible manner. The holders of this view expect the USSR to continue gradual improvement in its readiness to intervene. Any final decision to do so and the extent of its intervention will be affected by many factors—including those cited above—and a Soviet

⁵ See the alternative view in paragraph 62.

assessment of the probability and risks of a direct military confrontation with the United States.⁶

Implications for the United States

63. Several major conclusions which have implications for the development of future US policy toward Iran emerge from this study:

- A return to the status quo ante is not possible. The Iran of the 1950s, '60s, and '70s died in the convulsions of the past three years.
- For the foreseeable future, the Iranian political context will be characterized by instability and anti-Americanism. Moreover, the power struggle for Khomeini's attention now and legacy later will continue, with no clear victor discernible at this juncture.
- The potential for increased violence is high, particularly after Khomeini dies.
- At best a government will emerge which is at once highly nationalistic, nonaligned, and anti-Communist.

64. Implementation of the hostage agreement, even without complications, will not affect these generalizations. An adversary relationship with the United States will persist. Any perceived footdragging on implementation would heighten the already prevalent belief that the United States is a malevolent power which cannot be trusted and which has sinister designs toward the revolution.

65. In view of this suspicion and negativism, the United States has no direct leverage with which to channel developments in ways that serve its interests. Quick resumption of US commercial activity in Iran would likely prove counterproductive. Indeed, such a presence would offer convenient scapegoats for future Iranian economic failures, rekindle violent anti-Americanism, and provide a new crop of potential terrorist targets.

66. Given the fluid situation in Iran, US moves which maintain flexibility, serve long-term interests, and operate in an indirect manner—that is, through third countries—probably have the best chance of achieving lasting beneficial results.

⁶ The holders of this view are the Director, Defense Intelligence Agency, and the Assistant Chief of Staff for Intelligence, Department of the Army.

16
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